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Codan Limited (CDA)

Communication is key

Recommendation

Hold (Initiation)

Price

\$16.33

Target (12 months)

\$16.90 (Initiation)

GICS Sector

Technology Hardware and Equipment

Expected Return

Capital growth	3.5%
Dividend yield	1.6%
Total expected return	5.1%

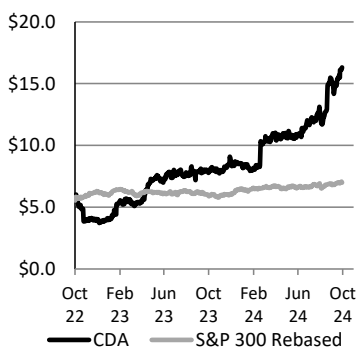
Company Data & Ratios

Enterprise value	\$3,040.2m
Market cap	\$2,964.8m
Issued capital	181.6m
Free float	~99%
Avg. daily val. (52wk)	\$4.1m
12 month price range	\$7.36 - \$16.43

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	14.99	11.78	7.96
Absolute (%)	8.87	38.54	105.03
Rel market (%)	7.26	33.26	88.53

Absolute Price



SOURCE: IRESS

Introduction to Codan Limited

Codan is an Australian technology company that develops and manufactures innovative, mission critical communications and detection technology. CDA's primary customers include defence, government departments, major corporates, small scale miners and individual consumers. CDA was founded in 1959 in Australia and listed on the ASX in 2003.

Successful M&A track record

CDA has a proven track record of successfully acquiring and integrating new business into group operations. Based on our forecast FCF growth, current net debt position and an increased debt facility (\$200m), we believe the CDA balance sheet is in a healthy position with sufficient capacity to make further acquisitions. The company is not overly leveraged with a forecast Net debt to EBITDA ratio of 0.5 in FY25.

Diversified earnings, forecast margin expansion

CDA has successfully diversified its earnings through a series of acquisitions, which has materially bolstered its communications offering and reduced its reliance on any one division or geography. Codan targets 10% - 15% organic revenue growth annually in the comms segment and is targeting a >30% segment EBIT margin through the realisation of additional operating leverage. We forecast comms segment EBIT margins of 25.8%, 27.1% and 30.0% in FY25, FY26 and FY27, respectively.

Investment View: Initiate with HOLD, PT \$16.90

Codan's strong operating performance over the last 18-months and attractive growth profile has rightly driven a significant re-rating in the stock. However, at ~22x EV/EBIT and ~32x PE, the stock is now trading at more than 2 standard deviations above its respective 3-yr historical medians, 12.7x and 15.0x. Whilst we believe the re-rating is justified, it is hard to argue the stock should be trading at a substantial premium to its current level, with the company looking close to fair value at present. As such, we initiate with a HOLD recommendation and a price target of \$16.90.

Earnings Forecast

Year End 30 Jun	FY24	FY25e	FY26e	FY27e
Revenue (\$m)	550.5	629.2	689.8	760.6
EBITDA (Underlying) (\$m)	147.0	170.5	196.4	232.6
NPAT (Underlying) (\$m)	81.3	93.3	111.5	134.2
NPAT (Reported) (\$m)	0.0	0.0	0.0	0.0
Underlying EPS (cps)	nm	51.4	61.5	74.0
EPS growth (%)	nm	nm	20%	0%
PE (x)	36.5	31.9	26.7	22.2
EV/EBITDA (x)	20.7	17.8	15.5	13.1
FCF Yield (%)	nm	nm	3%	4%
Dividend (cps)	22.5	25.7	30.7	37.0
Yield (%)	0.0	1.6%	1.9%	2.3%
Franking (%)	0.0	100%	100%	100%
ROE(%)	18.2%	18.9%	20.3%	21.8%

SOURCE: BELL POTTER SECURITIES ESTIMATES

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Investment Thesis

We initiate coverage on Codan Limited (CDA) with a HOLD recommendation and a price target of \$16.90 per share. Our investment thesis is driven by the following factors:

- **Increased quality of earnings.** Through a series of acquisitions Codan has successfully diversified its operations. The company has reduced its reliance on the metal detection segment by bolstering its communications offering, with the revenue split transitioning from 75%/25% in FY21 to 40%/60% in FY24. CDA now has a higher proportion of revenues from North America and Europe (70% combined), with less exposure to Africa (15%), and a greater number of high-quality customers, including government organisations and large corporates.
- **Greater predictability and stability of earnings.** The improved quality of earnings has also led to greater predictability and stability of earnings. Codan targets 10% - 15% organic revenue growth annually in the comms segment and high single-digit growth in the metal detection RoW market. The predictability of earnings in the comms segment is largely supported by Zetron, with 30% of its revenues received from long-term support contracts. We anticipate the proportion of multi-year contracts in the comms segment to increase as 1) Zetron gains market share in the US and Europe and 2) CDA gains greater traction in long-term US defence programs following the recent acquisition of Kägwerks.
- **Forecast margin expansion in comms segment:** Codan is targeting a >30% EBIT margin in the Comms segment in the next 2 – 3 years primarily driven by additional operating leverage. CDA has made a significant investment in its sales, marketing and engineering teams in recent years to position the comms segment for future growth. With the bulk of this investment made and operating expenses set to stabilise, forecast revenue growth will drive margin expansion. We forecast comms segment EBIT margins of 25.8%, 27.1% and 30.0% in FY25, FY26 and FY27, respectively.
- **Successful M&A track record:** Codan has a proven track record of successfully acquiring and integrating new business into group operations. The company has completely transformed the communications segment through a series of acquisitions, which, when integrated, have performed better than expectations. Based on our forecast FCF growth, current net debt position and an increased debt facility (\$200m), we believe the CDA balance sheet is in a healthy position with sufficient capacity to make further acquisitions. The company is not overly leveraged with a Net debt to EBITDA ratio of 0.5 in FY24.
- **Commitment to R&D investment to driving future earnings growth:** Codan has historically invested 8% - 10% of group revenue in engineering spend to maintain its technological advantage in a competitive market. According to management, 74% of total engineering investment is now directed towards Communications, consistent with its future growth strategy.
- **Close to fair value at present:** Codan's strong operating performance over the last 18-months and attractive growth profile has rightly driven a significant re-rating in the stock. However, at ~22x EV/EBIT and ~32x PE, the stock is now trading at more than 2 standard deviations above its respective 3-yr historical medians, 12.7x and 15.0x. Whilst we believe the re-rating is justified, it is hard to argue the stock should be trading at a substantial premium to its current level, with the company looking close to fair value at present. As such, we initiate with a HOLD recommendation and a price target of \$16.90.

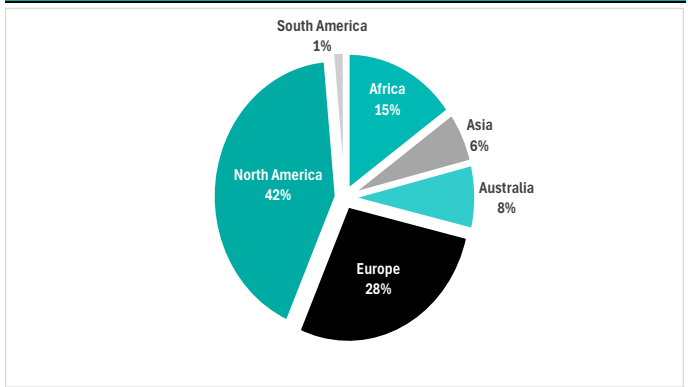
Key Charts

Figure 1 – Segment revenue w/ group EBIT margin %



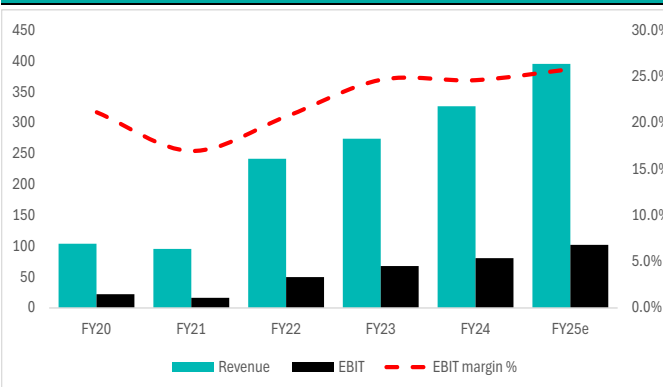
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 2 – FY24 revenue breakdown by geography



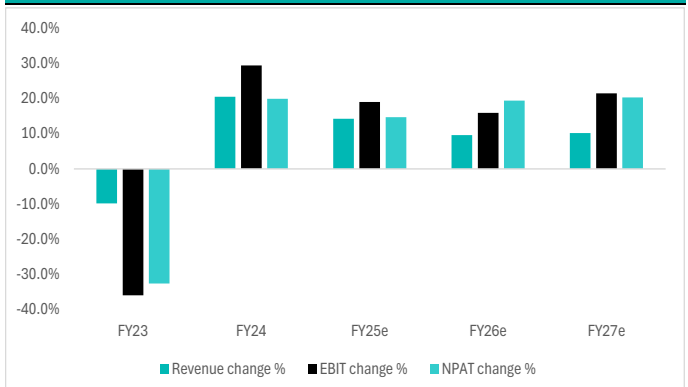
SOURCE: COMPANY DATA

Figure 3 - Comms segment revenue, EBIT and margin %



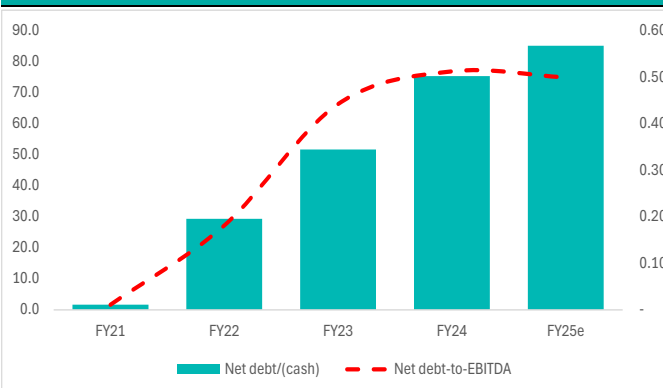
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 4 – Group operating leverage FY23 – FY27e



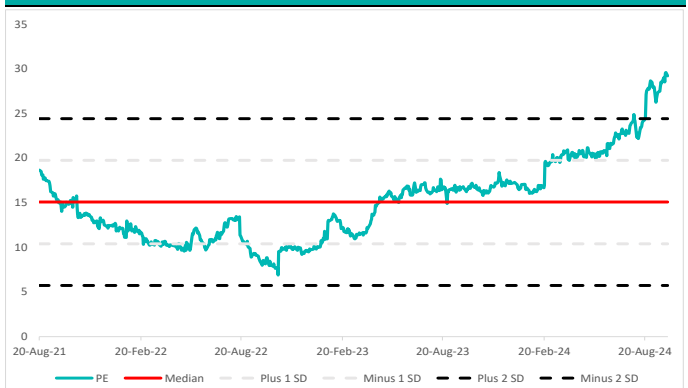
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 5 – CDA Net debt/ (cash) and Net-debt-to-EBITDA



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 6 - Codan 1-yr forward PE



SOURCE: VISIBLE ALPHA, BLOOMBERG

Key Risks

Key downside risks to our estimates and valuation include (but are not limited to):

- **Acquisition risk:** CDA has a proven track record of successfully acquiring and integrating new businesses. However, any future acquisitions involve further due diligence, capital allocation and business integration risks. If CDA were unsuccessful in the execution of future acquisitions this may harm the financial performance of the larger group operations.
- **Geopolitical risk:** Codan's performance has suffered from political instability in the African region in recent periods and this risk remains prevalent moving forward. In an effort to combat this risk, the company has broadened its customer base geographically, resulting in more diverse revenue streams.
- **Technology risk:** Codan first and foremost is a technology company and therefore the company needs to continually invest in R&D to ensure it does not surrender its market position to its competitors. Codan has historically invested 8% - 10% of group revenue in R&D to ensure its products and solutions remains at the forefront of their given industry.
- **Policy risk:** A key tailwind for the Zetron business is potential federal funding in the US to upgrade local and state public safety infrastructure to NG911. If this federal funding is not approved, it may affect Zetron's sales growth if customers are unable to source the funding required to upgrade their public safety infrastructure.
- **Competition Risk:** Codan operates in a range of competitive markets of both public and private companies. The company is often bidding for contracts in opposition to multiple parties, which may result in loss of contracts or less favourable terms for contracts they are awarded.
- **Credit risk:** Credit risk is the risk of financial loss to the group if a customer or counterparty fails to meet its contractual obligations. Codan minimises concentration of credit risk by undertaking transactions with a large number of customers in various countries.
- **Key personnel risk:** The loss of key management personnel, delays in their replacement, and/or failure to attract new talent, may adversely affect CDA's operations and future performance.
- **Currency risk:** Codan is exposed to currency risk on sales, purchases and balance sheet accounts that are denominated in a currency other than the Australian dollar (AUD). The group enters into foreign currency hedging instruments or borrowings denominated in a foreign currency to hedge certain anticipated highly probable sales denominated in foreign currency (principally in USD).

Company Overview

Introduction to Codan Limited

Codan is an Australian technology company that develops and manufactures innovative, mission critical communications and detection technology. The company's primary customers include security and military groups, government departments, major corporates, small scale miners and individual consumers.

Codan was founded in 1959 in Australia and listed on the ASX in 2003. The company now has approximately 900+ employees across 15 sites globally, in 10 key countries.

Figure 7 - Codan's core brands



SOURCE: COMPANY DATA

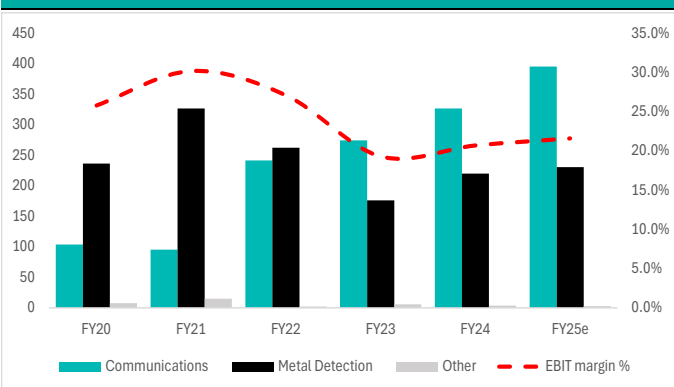
A more diversified, sustainable business

Pre-COVID, the primary revenue driver for CDA was the metal detection segment, which contributed 77% of FY21 revenue. However, COVID disruptions and political instability in its key market of Africa resulted in a substantial fall in revenue and exposed the company's over-reliance on its metal detection business.

In response, CDA targeted acquisitions to bolster its communications division in an effort to diversify its earnings and customer base. Through a series of acquisitions CDA significantly broadened the offering of its communications division and reduced the reliance of its earnings on the metal detection division, with communications contributing 59% of group revenue in FY24.

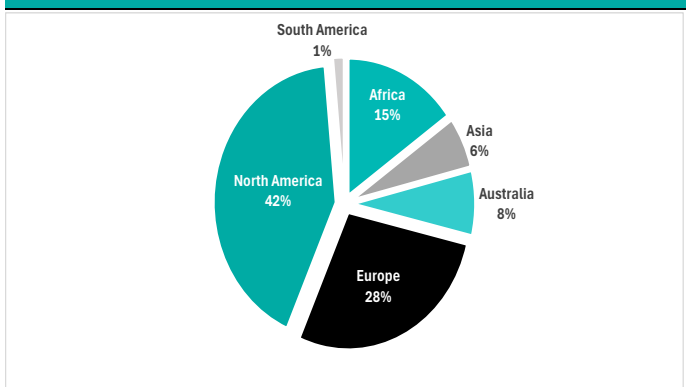
Codan in its current form is a more diverse business with predictable, sustainable earnings and less reliance on any one division or geography.

Figure 8 - Segment revenue w/ group EBIT margin %



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 9 - FY24 revenue breakdown by geography



SOURCE: COMPANY DATA

Communications Segment

The Communications ('Comms') segment designs and manufactures mission-critical communication solutions for global military, public safety and commercial applications. This segment includes two separate divisions: Tactical Communications and Zetron.

The Comms segment has grown at a CAGR of 51% between FY21 and FY24, largely driven by a series of acquisitions (see pages 8 & 9) made to secure complementary technologies and gain access to new markets. This segment is now the primary driver of revenue for Codan, accounting for ~59% of total revenue in FY24, compared to ~22% in FY21. Codan continues to target organic revenue growth in a 10% - 15% range for the Comms segment and is actively seeking further acquisition opportunities in the Northern Hemisphere.

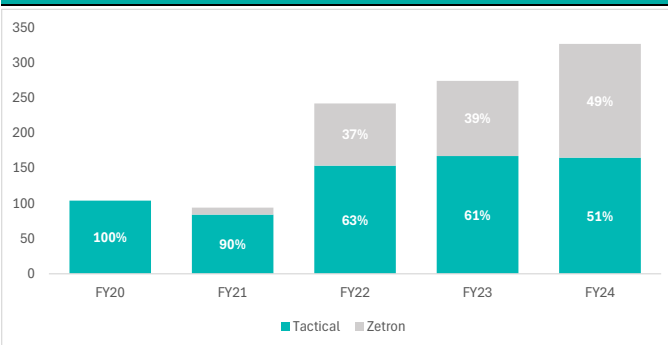
FY24 exceeds targeted growth, focus on margin expansion

The Comms segment delivered another strong performance with FY24 revenue of \$326.9m, an increase of 19% YoY. Once adjusted for a large comms project delivered in FY23, organic revenue growth of 16% exceeded the target 10% - 15% range.

Segment EBIT was \$80.5m, which reflected 19% growth YoY and a margin of 25%. Codan is targeting a >30% EBIT margin in the Comms segment in the next 2 – 3 years primarily driven by additional operating leverage. The company has made a significant investment in its sales, marketing and engineering teams in recent years to position the comms segment for future growth. With the bulk of this investment made and operating expenses set to stabilise, further revenue growth will drive margin expansion. We forecast comms segment EBIT margins of 25.8%, 27.1% and 30.0% in FY25, FY26 and FY27, respectively.

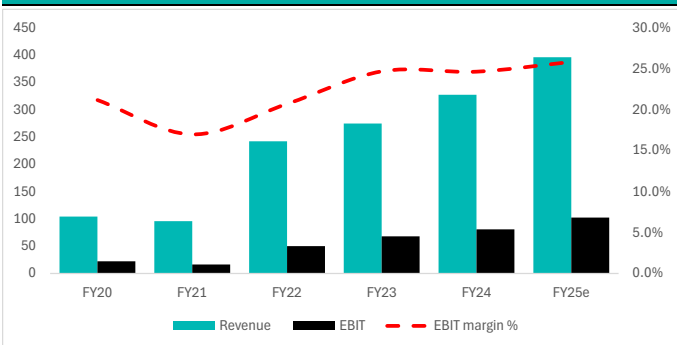
Finally, the Comms orderbook increased +21% to \$197m as at 30-Jun-24, including \$120m of revenues to be delivered during FY25.

Figure 10 – Comms. segment revenue attribution FY20 – FY24



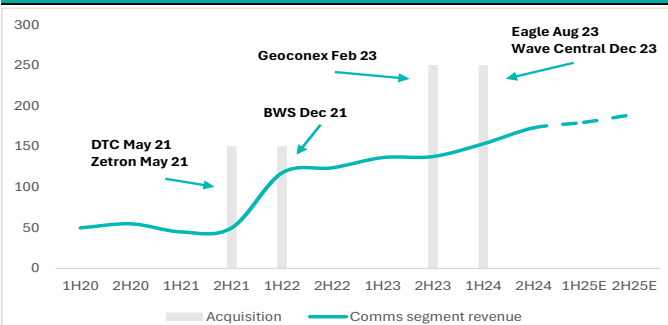
SOURCE: COMPANY DATA

Figure 11 – Comms segment revenue, EBIT and margin %



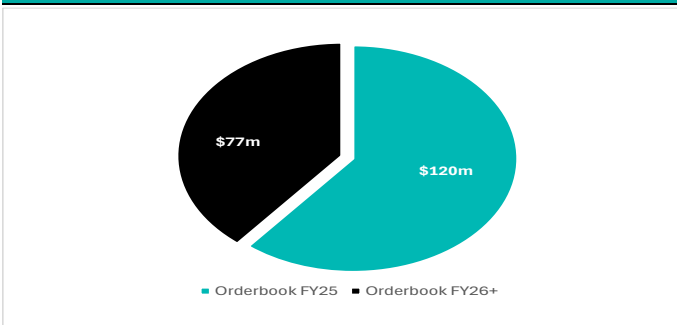
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 12 – Comms acquisition history w/ segment revenue



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 13 – Current Comms segment orderbook



SOURCE: COMPANY DATA

Communications: Tactical

The **Tactical Communications** division provides a full suite of communications solutions to customers in a range of markets, including military, unmanned systems, law enforcement, intelligence, broadcast, commercial and NGO.

Figure 14 - Primary markets

	Market	Current primary solutions/applications	Key customers
Primary markets	Military, intelligence and Law enforcement	Radio systems with secure talk groups. Soldier-to-soldier situational awareness. Integrated surveillance - real time audio, visual and location-based data.	5-eyes, NATO, Global police and intelligence organisations.
	Unmanned	Ultra-light communication at low latency and ultra-high range	Military and intelligence organisations with requirements for aerial drones, ground vehicles and autonomous sea vehicles.
Secondary markets	Broadcast	Wireless HD video and audio solutions	Sports broadcasts, news organisations, entertainment, venue owners.
	Commercial/ NGO's	Interoperable and encrypted voice and data solutions.	NGO's, Humanitarian and peacekeeping.

SOURCE: COMPANY DATA

Expansion into adjacent markets and transition to full solutions

Originally, Tactical primarily provided rugged communications solutions to military and intelligence customers. However, the acquisition of Broadcast Wireless Systems (FY22) and Wave Central (FY23) facilitated its expansion into the broadcast market, including Sports, News and Entertainment.

The recent acquisition of Kägwerks, a leader in tactical operator-worn communications technologies, was made to transform the military comms business into a full solutions provider. Kägwerks is a trusted supplier to the US military, thus this acquisition will support CDA's goal to achieve greater penetration in the US defence market and acceptance into major US military programs. The advantage of participation in these programs is improved revenue predictability through long-term multi-year contracts.

Figure 15 - Acquisition history

Business	Acquired	Purchase price \$(m)	Core Operations	Customers/ markets	Strategic rationale for acquisition
Codan Communications	NA	NA	Provides voice-based communication products.	Developing world militaries in Africa, Middle East, Asia, Eastern Europe and Latin America.	Existing operations.
Domo Tactical Communications	FY21	109.0	Provides wireless transmission of video and other data.	Military and Special Forces, Intelligence Agencies, Border Control, First Responders and Broadcasters.	Transition to a full solution communications provider.
Broadcast Wireless Systems	FY22	8.4	Provides wireless video camera links and high-quality video broadcast products.	Broadcasters, including remote broadcasts and production. Primarily European Market.	Expand broadcast presence.
Wave Central	FY23	10.4	Provides wireless video camera links and high-quality video broadcast products.	Broadcasters, including remote broadcasts and production. Primarily North American Market.	Drive growth in North American broadcast market.
Kägwerks	FY25	33.6	Provides tactical operator-worn networking communications technologies	Supplier to US Department of Defence	Facilitate greater penetration of US defence market and transition to full solutions provider

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES

Solid FY24 result, Kägwerks immediately EPS accretive

Tactical Communications delivered FY24 revenue of \$165.2m (source: VA), which accounted for 51% of total comms segment revenue but represented a modest fall (-1%) YoY. The fall YoY was unsurprising due to the contribution of a large military communications project in FY23, which had previously been flagged as a one-off.

Tactical experienced strong growth in the unmanned systems and broadcast markets, which offset weakness in the HF radio market due to on-going instability in the African region. Additionally, the Wave Central integration went as planned and delivered results in-line with expectations.

The Kägwerks acquisition is expected to be immediately EPS accretive and contribute \$49m - \$57m of revenue and \$8m - \$11m of EBITDA in the first 12-months (2H25/1H26).

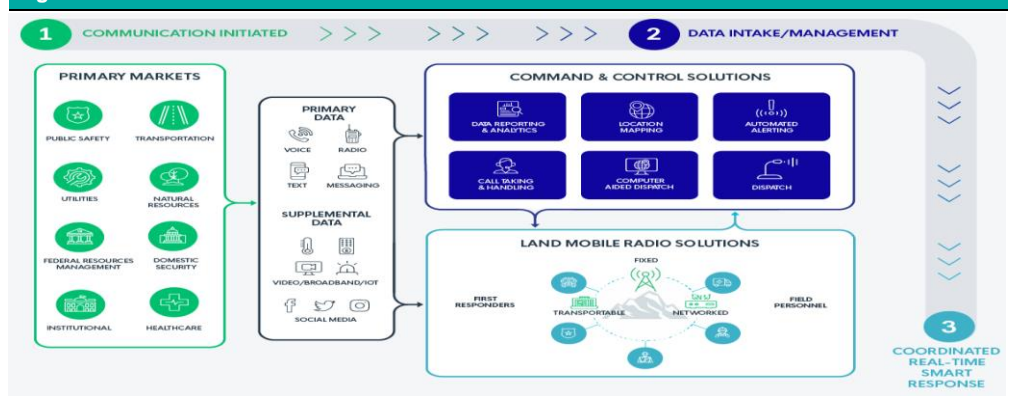
Communications: Zetron

End-to-end mission critical communications solution

Zetron is a global provider of mission critical communication solutions with significant market presence in the US, UK, Europe, the Middle East and Australia.

The company’s end-to-end solution (see **Figure 16**) includes a comprehensive command & control software used to process data and manage responses in mission critical situations and its Land Mobile Radio (LMR) solutions (fixed radio antennae, base station repeaters, etc) extend the quality and reliability of communications across all terrains, ensuring all elements of the mission network remain connected at all times.

Figure 16 - Zetron end-to-end solution overview



SOURCE: COMPANY DATA

High quality customers in large, global markets

Zetron has substantially increased its global market presence, with operations in North America, the UK, Europe, the Middle East and Australia. Public safety remains its primary market, however transport and utilities sectors provide additional opportunities for growth.

We estimate Zetron’s operations in North America accounted for approximately ~80% of its FY24 revenue. The NA public safety market is highly fragmented between the major cities and the more rural/suburban areas, with Zetron targeting these latter markets and larger players, such as Motorola, dominant in the major cities. Public safety customers in the rural markets have multiple technology providers, thus Zetron’s end-to-end solution is a key competitive advantage as its attempts to increase its market share.

Zetron’s legacy operations in the US have been boosted by the acquisition of Eagle in FY23, which has materially increased its market share in the UK. The company counts several high-quality organisations as customers, including the UK Home Office, the London Underground and two-thirds of the police forces in the UK. Based on data from the UK Competition and Markets Authority, we estimate Zetron has a 15% - 25% market share in the UK, making it the third largest provider behind NEC and Frequentis.

Figure 17 - Key markets

	Market	Current primary solutions/applications	Key customers
Primary market	Public safety	Integrated systems that streamline emergency response and management	Emergency service providers (e.g police, fire, ambulance, etc.)
Secondary markets	Transportation	Command & Control solutions powering the most complex control room environments	Airports, railways, etc.
	Utilities	Communications that help keep the lights on and restore vital services when they’re down	Energy generators, infrastructure assets, etc.

SOURCE: COMPANY DATA

Vertical integration and entry into new markets

The acquisition of Zetron in FY21 was a transformational moment for the Codan business, establishing Codan as an end-to-end solutions provider in mission critical communications. This acquisition allowed CDA to integrate its Land Mobile Radio products with Zetron’s command and control capability, providing a fully integrated solution to customers.

Zetron’s offering was further boosted by the integration of Geoconex in FY23, a long-term provider of Computer Aided Dispatch (CAD) and Mapping solutions. The acquisition of Eagle in FY24, expanded Zetron’s market presence in the UK and facilitated its entry into Europe and the Middle East.

We anticipate further acquisitions by Zetron to follow the same rationale; integration of complementary technologies and to gain market share in new/existing markets.

Figure 18 – Zetron recent acquisitions

Business	Acquired	Purchase price \$(m)	Core Operations	Examples of products and solutions	Customers/ markets	Strategic rationale for acquisition
Zetron	FY21	50.0	Leading US based company providing mission critical communications and interoperability solutions.	Command and Control platform used in control centres to receive and triage incoming calls and then communicate with first responders.	Public safety, transportation, utilities, healthcare and natural resources customers. Strong market presence in the US.	Expand LMR into adjacent technology solutions.
GeoConex	FY23	8.9	Leading integrator of US Public Safety and Homeland Security systems.	Computer Aided Dispatch (CAD) and Mapping solutions.	Utilised by dispatchers in emergency call centres, to record incident calls, identify the status and location of responders in the field and dispatch responder personnel.	GeoConex was a technology provider to Zetron for over 13 years. The acquisition brings this technology in-house and extends Zetron’s end-to-end solutions.
Eagle	FY24	20.0	Leading UK software supplier to the emergency services, public safety and control room markets.	Command and Control platform used in control centres to receive and triage incoming calls and then communicate with first responders.	Emergency services, public safety and control room operators. Strong market presence in the UK, Europe and Middle East.	Expand its Zetron communications business into the UK, Europe and the Middle East.

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES

Growth underpinned by high quality, predictable earnings

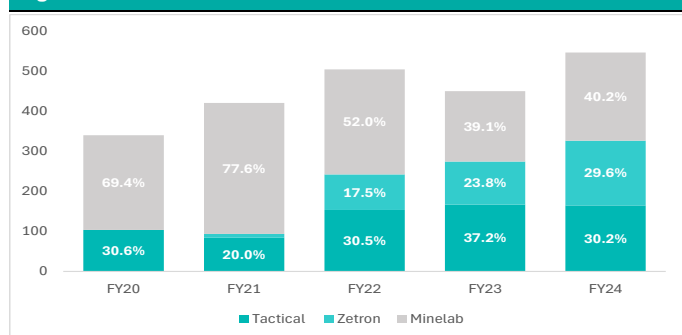
Zetron delivered a better-than-expected result during FY24, recording revenue of \$161.7m (source: VA), which was an increase of 43% YoY (\$113.0m FY23). Growth in the business is largely driven by new customers seeking a complete command and control solution, rather than employing multiple providers, and the successful integration of Zetron UK.

Zetron’s long-term support contracts provide greater predictability of future revenues, and we estimate these accounted for ~30% of its FY24 revenues. The company continues to target recurring support contracts and other multi-year contracts to complement one-off product sales and build more stable, predictable revenue streams.

Notable contract wins during the year from high quality customers include a \$10.0 million contract with one of the largest utilities providers in the Midwest region of the US, a \$3.5 million upgrade with Kitsap County, a \$2.0 million Queensland Rail project upgrade and the renewal of a London Underground recurring services contract.

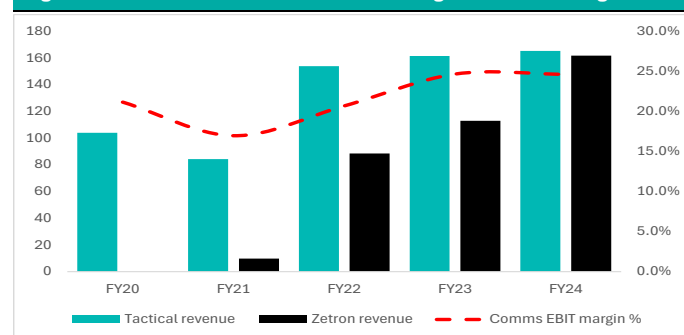
In our view, Zetron will be the long-term growth driver for Codan with the company’s end-to-end solution a major competitive advantage in what are largely fragmented global markets. As such, we expect Zetron to gradually gain market share in the short to medium term as it executes on its current growth initiatives.

Figure 19 – CDA revenue breakdown FY20 – FY24



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 20 – Comms rev breakdown w/ segment EBIT margin %



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Metal Detection Segment

Minelab

Minelab, acquired by Codan in 2008, is a manufacturer of hand-held metal detection technologies for recreation, gold prospecting, and humanitarian and military demining requirements.

The company has a history of innovation in the metal detection industry, with its investment in product development and superior product range elevating Minelab above its competitors as a global leader in hand-held metal detection.

RoW markets strong, continued disruption in Africa

Africa: From FY15-FY20, Africa was a major market for Minelab, however political instability in the broader region and a post-COVID reduction in demand has contributed to a significant fall in Africa related revenues, with FY23 revenues -70% compared to the pcp. The African market delivered an improved FY24 result (~\$70m revenue), increasing HoH as well as versus FY23.

RoW: The RoW markets have remained resilient, despite inflationary pressures reducing discretionary income, supported by new product releases and an expanding retail footprint. Counter-mine sales were again strong and largely driven by humanitarian efforts in conflict areas such as Ukraine. The company is targeting RoW revenues to grow at high single digits in FY25.

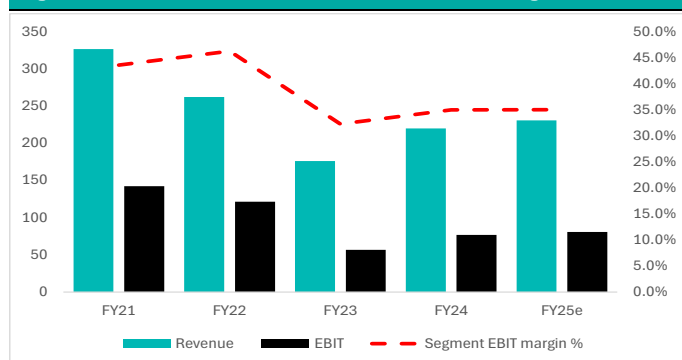
Early-stage segment recovery, on-going volatility anticipated

Minelab was historically the primary driver of revenue for CDA, contributing 77% of total revenue in FY21. However, CDA's efforts to scale the communications division coincided with the fall in Africa related revenues, resulting in Minelab contributing a substantially lower proportion of revenue (40%) in FY24.

The \$219.9m of segment revenue in FY24 was a +25% improvement on FY23, however this remains -33% below the FY21 peak (\$326.6m). The segment profit margin increased to 35% during the year (FY23 32%) based on enhanced operating leverage. In FY25, Minelab is targeting high-single digit revenue growth in the RoW markets, with no outlook provided in relation to Minelab Africa.

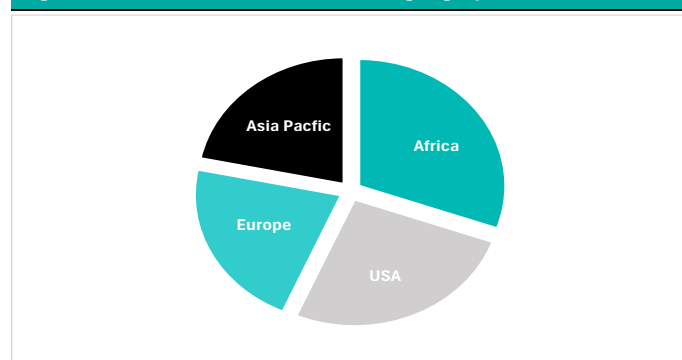
In our view, the outlook for the RoW market remains positive, with continued growth to be driven by new product releases, expanding retail distribution and greater eCommerce penetration. However, continued disruption in the African region due to geopolitical instability will likely lead to on-going sales volatility in the short-to-medium term.

Figure 21 – Metal detection revenue, EBIT and margin %



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 22 – BPe Metal detection FY24 geographical breakdown



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

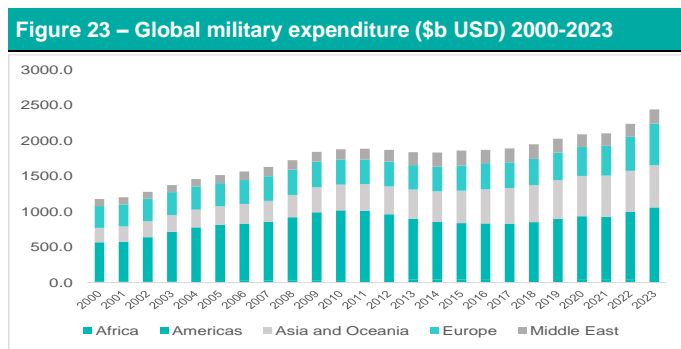
Market outlook, trends and drivers

Increasing military expenditure globally and within Five Eyes

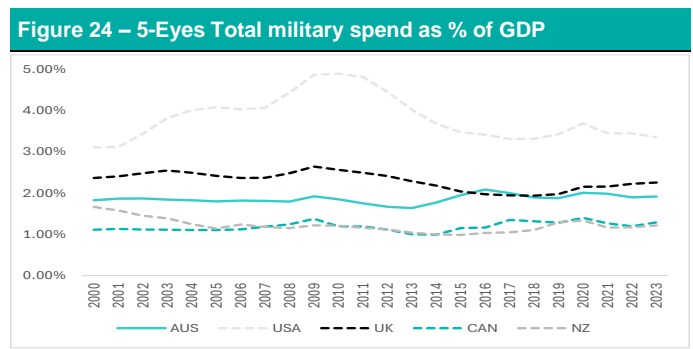
The war in Ukraine, conflict in the Middle East and tensions in the Pacific were all driving factors in 2023 recording the steepest YoY increase in global military spending since 2009.

Total global military expenditure increased 6.8% in 2023 to reach a record \$2,443b USD, with all five geographical regions (Africa, Americas, Asia, Europe and the Middle East) recording YoY increases for the first time in over a decade. More specifically with the Five Eyes, the USA (+6.4%), UK (+16.9%), CAN (+6.5%) and NZ (+7.1%) recorded some of the most significant increases in military spending during 23', whilst AUS (-0.3%) was flat YoY.

Defence, military and intelligence organisations are key customers for Codan, particularly in the Tactical Communications division. The current levels of military expenditure globally are providing increasing numbers of sales opportunities and will likely underpin continued growth in the segment for the medium to long-term.



SOURCE: STOCKHOLM INTERNATIONAL PEACE RESEARCH INSTITUTE



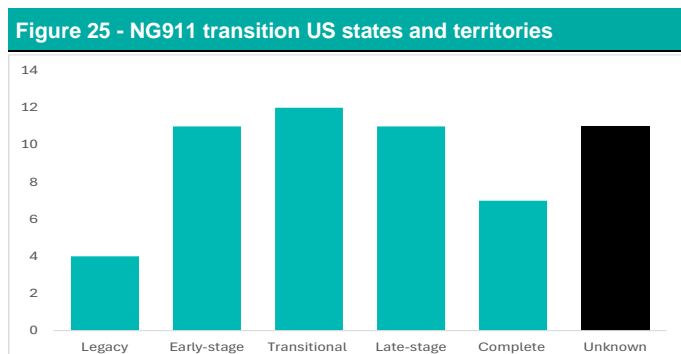
SOURCE: STOCKHOLM INTERNATIONAL PEACE RESEARCH INSTITUTE

Government funding (~US\$10-15b) to support NG911 upgrades

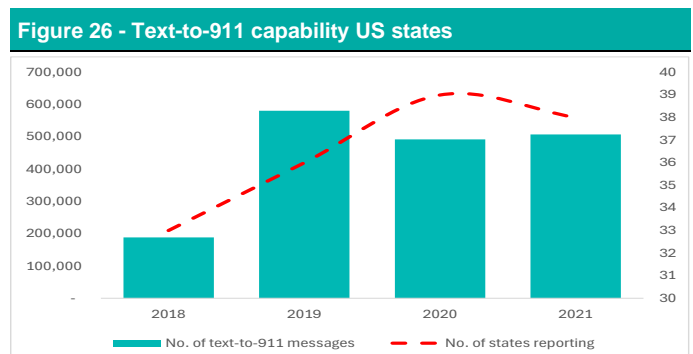
In the US, emergency response systems (911) have largely relied on legacy telephone-based infrastructure, however technological advancements have provided the opportunity for a more effective, internet-based response known as Next-Generation 911 (NG911).

State and local governments are responsible for 911 funding and operations in the US, leading to varying levels of progress toward NG911 upgrades across the country. In order to rectify this, legislation has been put before the US congress to provide US\$10-15b in federal funding for NG911 upgrades to local and state infrastructure.

Zetron is an established player in the US market and one of only of two participants with an end-to-end solution in the public safety market. Therefore, we believe it would be a key beneficiary of a more supportive funding environment in the US, with the NG911 upgrades providing an opportunity to further increase its market share.



SOURCE: NATIONAL 911 ANNUAL REPORT 2021



SOURCE: NATIONAL 911 ANNUAL REPORT 2021

Financials

Forecast Profit & Loss

Our forecast Profit & Loss for the next 3 years (FY25-FY27) is shown below.

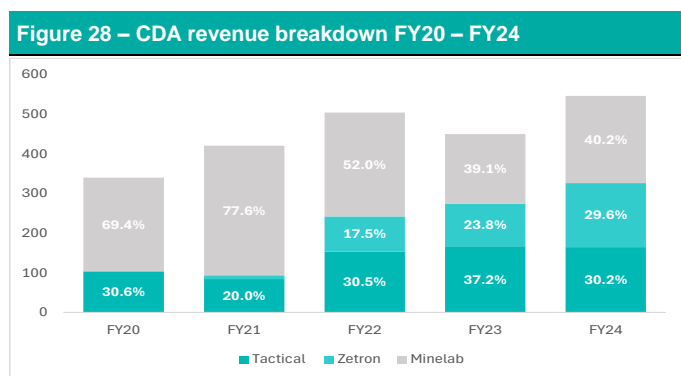
Figure 27 – Forecast Profit & Loss					
Income Statement (A\$m)	Jun-23	Jun-24	Jun-25	Jun-26	Jun-27
Year end 30 June	FY23	FY24	FY25e	FY26e	FY27e
Communications	274.5	326.9	395.5	443.0	498.4
Metal detection	176.1	219.9	230.8	244.7	260.6
Other	5.9	3.7	2.8	2.1	1.6
Total Revenue	456.5	550.5	629.2	689.8	760.6
<i>growth %</i>	-9.8%	20.6%	14.3%	9.6%	10.3%
Cost of sales	(207.0)	(245.2)	(286.3)	(310.4)	(338.4)
Gross Profit	249.4	305.2	342.9	379.4	422.1
<i>Gross margin %</i>	54.6%	55.4%	54.5%	55.0%	55.5%
Operating expenses (excl. D&A, int.)	(128.8)	(157.7)	(172.4)	(183.0)	(189.6)
EBITDA	116.8	147.0	170.5	196.4	232.6
<i>EBITDA margin %</i>	25.6%	26.7%	27.1%	28.5%	30.6%
Total D&A	(28.9)	(33.1)	(34.8)	(38.9)	(41.3)
EBIT	88.0	113.9	135.7	157.4	191.3
<i>EBIT margin %</i>	19.3%	20.7%	21.6%	22.8%	25.2%
Interest Expense	(5.3)	(9.4)	(11.3)	(8.7)	(6.2)
Profit Before Tax	82.6	104.5	124.4	148.7	185.1
Income Tax Expense	(14.9)	(23.2)	(31.1)	(37.2)	(50.9)
Underlying NPAT	67.7	81.3	93.3	111.5	134.2
<i>NPAT growth %</i>		20.0%	14.7%	19.5%	20.4%
Diluted EPS (cps)	37.3	44.7	51.2	61.2	73.7
<i>EPS growth %</i>		19.7%	14.6%	19.5%	20.4%

SOURCE: BELL POTTER SECURITIES ESTIMATES

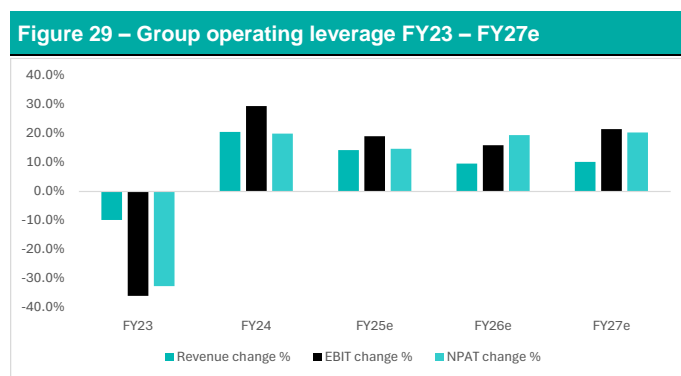
They key points are:

- Comms segment key driver of future growth:** In our view, the Comms segment will be the key driver of future growth for CDA, with forecast growth of 21%/12% in FY25/FY26. We anticipate organic growth to fall in the 10% to 15% range with the uplift in FY25e provided by Kägwerks. In FY25 this segment will benefit from 1) recent investment in both sales/marketing teams and R&D positioning Zetron to gain market share in NA and UK/EUR and 2) a strong foundation in tactical with the upside of the Kägwerks acquisition to drive greater penetration in the US defence market.
- Sales volatility expected in metal detection:** The outlook for the RoW market remains positive, with growth to be driven by new product releases, expanding retail distribution and greater eCommerce penetration. However, continued disruption in Africa due to political instability will likely lead to on-going sales volatility. Our RoW forecasts are in-line with management targets of high-single digit revenue growth however our overall segment growth is 5%/6% in FY25/FY26 based on sales volatility in Africa.
- Operating expenses to stabilise:** We expect opex to stabilise around these levels, with marginal uplift as revenue increases, following the significant investment CDA has made in strengthening sales/marketing teams, processes and systems. Opex has increased from ~\$83m in FY21 to ~\$160m in FY24 based on this investment and the integration of acquired businesses. We believe the current cost base is the optimal level for the business in its current form and to execute its future growth initiatives.

- **Operating leverage drives margin expansion:** With the stabilisation of the cost base, we anticipate CDA to realise significant operating leverage, supporting margin expansion. Specifically, the company is targeting EBIT margins in the Comms segment of >30% in the medium term and we anticipate the company will achieve this in FY27. We forecast group EBIT margins of 21.6%, 22.8% and 25.2% in FY25, FY26 and FY27, respectively.
- **NPAT forecasts:** We anticipate strong bottom-line earnings growth in future periods with NPAT forecasts of \$93.3m, \$111.5m and \$134.2m in FY25, FY26 and FY27. This translates to EPS growth of 14.6%, 19.5% and 20.4% in the same periods.



SOURCE: COMPANY DATA



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Cash Flow

The key figures from the Cash Flow Statement over the next 3 years are shown below.

Figure 30 - Key figures and ratios from Cash Flow forecasts

Cash Flow Statement (A\$m)	Jun-23	Jun-24	Jun-25	Jun-26	Jun-27
Year end 30 June	FY23	FY24	FY25e	FY26e	FY27e
Gross Cash Flow	96.1	136.7	172.2	201.2	242.5
Operating Cash Flow	79.9	106.5	129.8	155.3	185.4
Capex	(18.0)	(10.1)	(14.6)	(17.0)	(17.8)
Capitalised product development	(30.0)	(39.8)	(43.8)	(47.1)	(50.6)
Free Cash Flow	31.8	56.5	70.5	90.1	115.8
<i>FCF growth %</i>		77.5%	24.7%	27.9%	28.5%
Acquisitions	(6.5)	(37.2)	(33.6)	-	-
Dividends paid	(43.5)	(36.3)	(46.6)	(55.8)	(67.1)
Net Change in Cash	0.5	(3.9)	20.3	14.4	28.7

SOURCE: BELL POTTER SECURITIES ESTIMATES

- **Engineering investment:** Codan has historically invested 8% - 10% of group revenue in engineering spend to maintain its technological advantage in a competitive market. According to management, 74% of total engineering investment is now directed towards Communications, consistent with future growth strategy.
- **Acquisitions:** Codan has a proven track record of successfully acquiring and integrating new business. We forecast \$33.6m in acquisition payments in FY25 to fund the recent purchase of Kägwerks. Whilst we anticipate Codan will make further acquisitions in future periods we do not yet factor this into our forecasts.
- **Growing Free Cash flow:** We expect CDA to record strong FCF in future periods as growth in OCF outpaces the corresponding capex and product development requirements. We forecast FCF of \$70.5m/\$90.1m/\$115.8m, in FY25/FY26/FY27.
- **Dividends:** We forecast an annual dividend payout ratio of 50% of NPAT in-line with management targets. As such, we forecast total dividends per share of 25.1c, 30.7c and 37.0c in FY25, FY26 and FY27, respectively.

Balance Sheet

The key figures from the Balance sheet over the next 3 years are shown below.

Figure 31 – Key figures and ratios from Balance Sheet forecasts

Balance Sheet (A\$m)	Jun-23	Jun-24	Jun-25	Jun-26	Jun-27
Year end 30 June	FY23	FY24	FY25e	FY26e	FY27e
Cash	23.7	19.7	40.0	54.3	83.1
Total Debt	75.4	95.1	125.1	105.1	85.1
Net debt/(cash)	51.7	75.4	85.2	50.8	2.1
PPE	37.7	40.2	48.3	49.8	51.4
Intangibles	274.0	304.6	330.6	329.4	328.2
Product development	108.2	129.4	153.5	179.4	207.2
Net Assets	488.3	510.7	563.3	618.0	687.6
Net Debt to EBITDA	0.4	0.5	0.5	0.3	0.0

SOURCE: BELL POTTER SECURITIES ESTIMATES

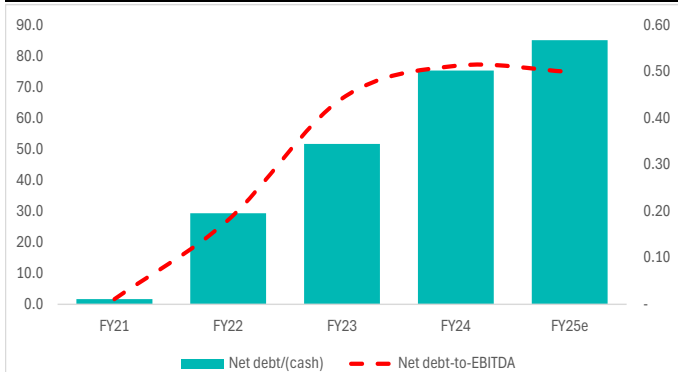
- **Net debt position:** Codan currently has a net debt position, which increased \$23.7m to \$75.4m as at 30-Jun-24. The increase was driven by \$37.2m cash consideration for acquisitions, \$40.0m in product development as well as dividend payments of \$36.3m.
- **Increased debt facility:** CDA increased its existing bank facility to \$200m (prev. \$140m), with additional capacity available of \$150 million subject to bank approval. These facilities provide the Company with the financial flexibility to support future inorganic growth opportunities.
- **Balance Sheet capacity:** Based on our forecast FCF growth, current net debt position and the increased debt facility, we believe the CDA balance sheet is in a healthy position with material capacity to make additional acquisitions in future periods. The company is not overly leveraged with a net debt to EBITDA ratio of 0.5 in FY24 and we forecast this to remain steady in FY25 before falling in FY26.

Figure 32 – CDA change in net debt position FY24



SOURCE: COMPANY DATA

Figure 33 - CDA Net debt/ (cash) and Net-debt-to-EBITDA



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Valuation

Our Price Target of \$16.90 is calculated using a blend of two valuation methodologies: EV/EBIT and DCF. The 12-month PT is a <15% premium to the current share price so we initiate with a HOLD recommendation.

Peer Analysis

We have constructed the below peer group based on comparable companies with exposure to Codan's main growth areas, 1) military communications solutions and 2) public safety command and control markets. Whilst the companies included will inherently have differing scale and broader operations, we believe the below analysis provides a beneficial reference for our relative valuation.

Figure 34 - CDA Peer analysis

Company name	Code	Currency	Last	Market Cap (\$b)	EV (\$b)	Revenue (\$m)		EBIT (\$m)		EPS 3-yr CAGR 2027	EV/EBIT	PE
						Current FY	1-Yr	Current FY	1-Yr			
Motorola Solutions Inc	MSI US Equity	USD	\$ 449.63	75.0	80.5	11,439.5	12,148.3	3,364.9	3,632.2	12.4%	25.5	33.8
Saab AB	SAABB SS Equity	SEK	\$ 215.90	117.3	120.5	72,115.3	83,073.3	7,146.6	8,757.6	53.5%	20.5	27.1
Viasat Inc	VSAT US Equity	USD	\$ 11.94	1.5	7.4	4,544.2	4,714.8	295.4	333.3	nm	23.2	28.5
RTX Corp	RTX US Equity	USD	\$ 121.16	161.2	200.4	84,347.3	88,999.6	10,858.9	11,937.0	10.7%	20.1	22.0
Lockheed Martin Corp	LMT US Equity	USD	\$ 584.56	139.3	156.1	74,146.4	76,778.3	8,804.4	9,160.2	6.1%	18.7	22.0
L3Harris Technologies Inc	LHX US Equity	USD	\$ 237.87	45.1	57.9	22,063.5	23,052.6	3,478.6	3,625.8	9.6%	17.1	18.3
Thales SA	HO FP Equity	EUR	\$ 142.55	30.0	34.7	21,532.9	22,870.1	2,645.0	2,935.9	12.5%	14.1	16.6
All Peers Median				117.3	120.5	72,115.3	76,778.3	7,146.6	8,757.6	11.6%	20.1	22.0
Codan Limited (BPe)	CDA	AUD	\$ 16.12	2.9	3.0	629.2	689.8	135.7	157.4	19.1%	22.1	31.5

SOURCE: BLOOMBERG AND BELL POTTER SECURITIES ESTIMATES

The key points are:

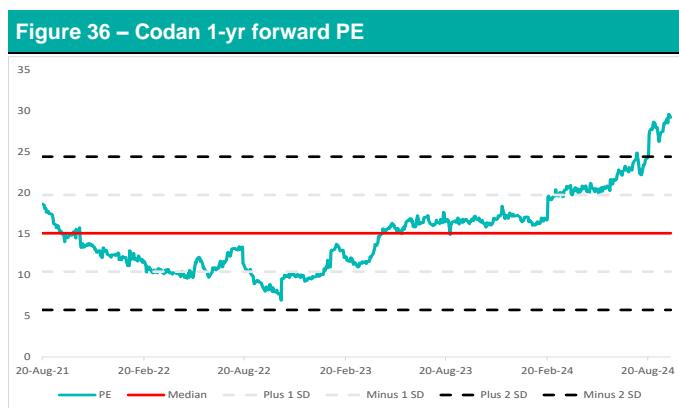
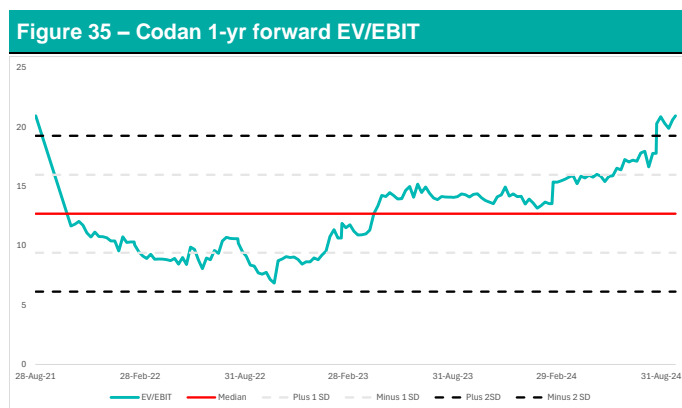
- **CDA at a premium to defence peers:** Codan is currently trading at a material premium to major defence primes on both an EV/EBIT and PE basis. Whilst defence primes operate in similar markets and are exposed to the same macro influences, these companies have substantially greater scale with lower growth prospects than Codan.
- **Lack of direct comms peers but Motorola a good reference:** Whilst it is difficult to include a greater number of like-for-like communications peers, Motorola is a strong comp for CDA. Motorola is a major player in the public safety command control market and also is a supplier of military grade radio solutions to global defence customers. The company is trading at slight premium to CDA, with an established market position and a double-digit growth profile we believe it is an appropriate valuation reference for CDA.
- **High discrepancy in PE multiples:** The range in PE multiples paid by the market is vast, however in our view this can at least in part be explained by differences in market position, scale, debt profile or EPS growth. Based on the greater consistency of valuations on an EV/EBIT basis, we believe this measure is most appropriate for our relative valuation.
- **Attractive organic and inorganic growth profile:** CDA's growth outlook is superior to the majority of its peers, which we believe justifies valuing the company at a higher multiple. However, many of CDA's peers are more established players in global markets and therefore carry less forecast and competition risk than CDA, which is an important factor in the determination of our valuation multiple.

Strong Organic growth, with inorganic upside, drives re-rating

Codan's strong outperformance over the last 18-months has rightly driven a significant re-rating in the stock. Further, the company has an attractive growth outlook with high single digit revenue growth likely to be supplemented by further acquisitions.

However, at ~22x EV/EBIT and ~32x PE, the stock is now trading at more than 2 standard deviations above its respective 3-yr historical medians, 12.7x and 15.0x.

Whilst we believe the re-rating is justified, it is hard to argue the stock should be trading at a substantial premium to its current level, with the company looking close to fair value at present.



Relative Valuation- EV/EBIT

Based on the wide variance in PE multiples in our analysis of CDA's peers, we have chosen to solely utilise an EV/EBIT multiple in our relative valuation.

We still believe analysis of CDA's current valuation on a Price-to-Earnings basis provides useful insight relative to historical terms, however we are of the view an EV/EBIT multiple will be most effective in our valuation.

As discussed above, CDA (22.1x) is currently trading at a premium to the median of its peers (20.1x) on an EV/EBIT basis. In our view, this premium is justified to some extent CDA due to its superior growth outlook (19% EPS 3-Yr CAGR), thus we have applied a 15% premium to the median of its peers (20.1x), resulting in a target EV/EBIT multiple of 23.1x.

See **Figure 37** below for a breakdown of the relative valuation.

Figure 37 - EV/EBIT valuation	
EV/ EBIT Target Multiple	
FY25e EBIT	135.7
Median EV/ EBIT	20.1x
<i>Premium</i>	<i>15%</i>
EV/ EBIT Target Multiple	23.1x
Implied Enterprise Value	3,135.8
Net Debt /(cash) FY24	75.4
Implied Equity Value	3,060.4
Diluted shares on issue	181.3
Valuation per Share	\$ 16.88

SOURCE: BELL POTTER SECURITIES ESTIMATES

Discounted Cash Flow (DCF) valuation

Our DCF valuation is shown below along with the calculation of the WACC we have used. This valuation is a year from now to be consistent with a 12-month price target.

Figure 38 - DCF valuation

DCF methodology	FY25e	FY26e	FY27e	FY28e	FY29e	FY30e
Operating Cash Flow (A\$m)	129.8	155.3	185.4	207.1	264.0	
Capex	(58.4)	(64.0)	(68.4)	(71.5)	(74.3)	
Free Cash Flow	71.4	91.3	117.0	135.6	189.7	3,694.4
Discount Rate	-	0.3	0.7	1.7	2.7	4.8
PV of cash flows	73.1	85.4	100.1	106.1	135.7	2,644.0
Sum of present values	3144.5					
Market value of investments	0.0					
Net debt/(cash)	75.4					
Equity value	3069.1					
Equity Value per share (\$)	\$ 16.94					

Key DCF Inputs		Sensitivity Analysis for DCF					
		Terminal Growth Rate					
		3.0%	3.5%	4.0%	4.5%	5.0%	
Cost of debt	4.4%						
Market risk premium	5.5%						
Beta	1.1	8.3%	\$17.48	\$19.13	\$21.16	\$23.74	\$27.09
Cost of equity	10.2%	8.8%	\$15.91	\$17.26	\$18.90	\$20.91	\$23.44
WACC	9.339%	9.3%	\$14.51	\$15.61	\$16.93	\$18.51	\$20.46
Terminal growth rate	4.0%	9.8%	\$13.48	\$14.43	\$15.53	\$16.85	\$18.44
		10.3%	\$12.52	\$13.32	\$14.25	\$15.35	\$16.65

SOURCE: BELL POTTER SECURITIES ESTIMATES

The sensitivity analysis in **Figure 38** outlines the effect of changes in the WACC and/or terminal growth rate on the DCF valuation.

Key assumptions used in our DCF Valuation:

- 5-year forecast period.
- Post-tax WACC of 9.3%, which is derived from a risk-free rate of 4.0%, market risk premium of 5.5% and unlevered asset beta of 1.1.
- Terminal growth rate of 4.0%.

Price Target \$16.90

We use a blend of two valuation methodologies, EV/EBIT and DCF, to determine a 12-month price target of \$16.90

See **Figure 39** below for a breakdown of the blended valuation.

Figure 39 - Price Target calculation

Methodology	Weighting	Value
DCF Valuation	50%	\$ 16.94
EV/ EBIT	50%	\$ 16.88
Blended Valuation		\$ 16.90

SOURCE: BELL POTTER SECURITIES ESTIMATES

Board of Directors & Key Management

Board of Directors

The Codan Board of Directors is detailed below.

Figure 40 - Codan Board of Directors

Mr Graeme Barclay	<i>Chairman</i>	Mr Alf Ianniello	<i>Managing Director and CEO</i>
Ms Kathy Gramp	<i>Non-Executive Director</i>	Ms Sarah Adam-Gedge	<i>Non-Executive Director</i>
Mr Heith Mackay-Cruise	<i>Non-Executive Director</i>		

SOURCE: COMPANY DATA

Mr Graeme Barclay (Chairman)

Graeme is a former CEO and Chartered Accountant with more than 35 years' experience in professional services, investment banking, and telecommunications. Graeme holds an honours economics degree, is a Chartered Accountant, a fellow of FINSIA and a member of AICD. Graeme was appointed to the Codan board in 2015 and became Chairman in February 2023.

Over the past 20 years Graeme has held Executive Chairman or Group CEO roles at BAI Communications, Transit Wireless LLC (New York), Nextgen Networks, Metronode data centres and Axicom group and for 8 years during this period was also an executive director in Macquarie Group's infrastructure team.

Mr Alf Ianniello (Managing Director and CEO)

Alf joined Codan as the Managing Director and CEO in January 2022, bringing with him extensive international experience in the packaging, defence and automotive industries, most notably holding senior positions with Schefenacker Vision Systems and British Aerospace. Prior to this appointment, Alf was CEO of Detmold Group for 14 years and positioned Detmold to become a leading international packaging solutions provider

Alf attended the Wharton Business School Global CEO Program in 2012, holds a Graduate Certificate in Management and a Bachelor of Engineering (Electronic Engineering) from the University of South Australia and is a graduate of the Australian Institute of Company Directors.

Key Management

The key management of Codan are detailed below.

Figure 41 - Codan Key management

Mr Michael Barton	<i>CFO and Company Secretary</i>	Mr Ben Harvey	<i>Executive GM, Minelab</i>
Ms Marjolijn Woods	<i>Chief Human Resources Officer</i>	Mr Paul Sangster	<i>Executive GM, Tactical Comms.</i>
Mr Daniel Hutchison	<i>Executive GM, Strategy, C&D and M&A</i>	Mr Scott French	<i>Executive GM, Zetron</i>

SOURCE: COMPANY DATA

Mr Michal Barton (CFO and Company Secretary)

Michael joined Codan in May 2004 as Group Finance Manager after a 14-year career with KPMG in their assurance division. He was appointed Company Secretary in May 2008 and in September 2009, Michael was promoted to the position of Chief Financial Officer and Company Secretary. Michael leads a team responsible for managing Codan's financial operations as well as legal and commercial matters, investor relations, information technology and business systems.

He holds a Bachelor of Arts in Accountancy from the University of South Australia and was recently made a fellow of Chartered Accountants Australia and New Zealand.

Shareholder Register

The Codan top shareholders are detailed below.

Figure 42 - Top shareholders Codan (CDA)

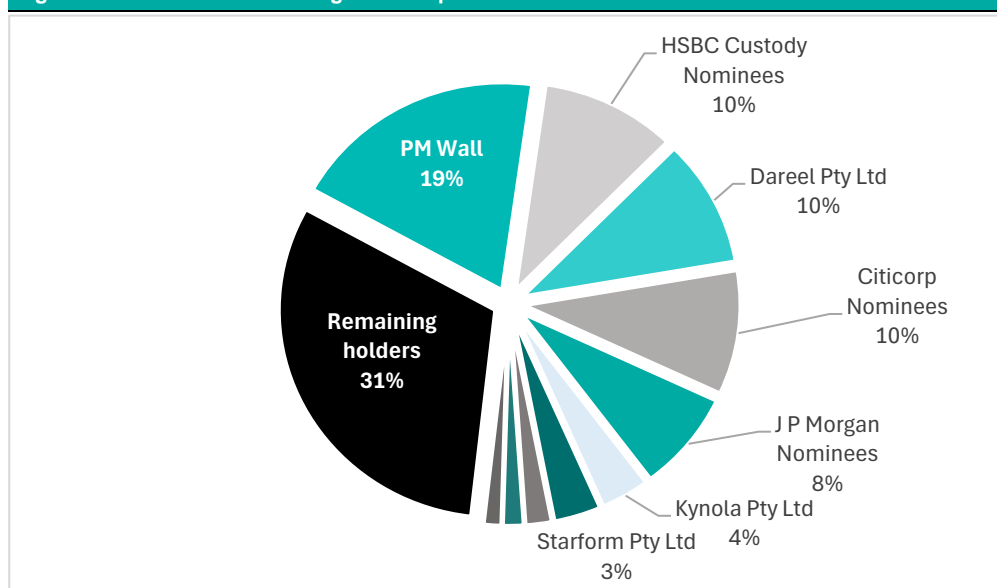
Name	No. of shares held	% of total shares on issue
PM Wall	34,808,151	19.2%
HSBC Custody Nominees (Australia) Limited	18,403,357	10.1%
Dareel Pty Ltd	18,013,512	9.9%
Citicorp Nominees Pty Limited	17,589,032	9.7%
J P Morgan Nominees Australia Limited	14,173,043	7.8%
Kynola Pty Ltd	6,627,548	3.7%
Starform Pty Ltd	6,404,224	3.5%
A Bettison	3,562,124	2.0%
National Nominees Limited	2,809,535	1.5%
M K and M C Heard	2,400,000	1.3%
Top 10 Total	124,790,526	68.7%
Total shares on issue	181,555,390	100.0%

SOURCE: COMPANY DATA

Key points:

- The largest shareholder is Mrs Pamela Wall (19.2%), former Board Member and wife of the late Mr Ian Wall, co-founder of Codan.
- According to Bloomberg Data, institutional investors account for 31.7% of the total shares on issue.

Figure 43 - CDA shareholder register composition



SOURCE: COMPANY DATA

Table 1 - Financial summary

Profit & Loss (A\$m)	FY23	FY24	FY25e	FY26e	FY27e	Codan Limited					
Year Ending 30 June						Share Price:	\$16.33	Target Price:	\$16.90		
Revenue	456.5	550.5	629.2	689.8	760.6	No. of issued shares (m):	181.6	Market cap:	\$2,964.8m		
Change %	-9.8%	20.6%	14.3%	9.6%	10.3%						
Cost of sales	(207.0)	(245.2)	(286.3)	(310.4)	(338.4)						
Gross profit	249.4	305.2	342.9	379.4	422.1						
Gross margin %	54.6%	55.4%	54.5%	55.0%	55.5%						
Expenses (excl. D&A, int.)	(128.8)	(157.7)	(172.4)	(183.0)	(189.6)						
EBITDA	116.8	147.0	170.5	196.4	232.6						
Depreciation and amortisation	(28.9)	(33.1)	(34.8)	(38.9)	(41.3)						
EBIT	88.0	113.9	135.7	157.4	191.3						
Net interest benefit/(expense)	(5.3)	(9.4)	(11.3)	(8.7)	(6.2)						
Pre-tax profit	82.6	104.5	124.4	148.7	185.1						
Income tax benefit/(expense)	(14.9)	(23.2)	(31.1)	(37.2)	(50.9)						
Underlying NPAT	67.7	81.3	93.3	111.5	134.2						
Abnormals (impairment reversal, etc.)	-	-	-	-	-						
Reported NPAT	-	-	-	-	-						
Cashflow (A\$m)	FY23	FY24	FY25e	FY26e	FY27e	Valuation Ratios					
EBITDA	116.8	147.0	170.5	196.4	232.6	Underlying Basic EPS (cps)	37.4	44.9	51.4	61.5	74.0
(-) Change in working capital	20.7	10.3	(1.7)	(4.9)	(9.9)	Underlying Diluted EPS (cps)	37.3	44.7	51.2	61.2	73.7
Gross cash flow	96.1	136.7	172.2	201.2	242.5	EPS growth (%)	nm	20%	14.6%	19.5%	20.4%
Income tax refunded/(paid)	(10.9)	(20.9)	(31.1)	(37.2)	(50.9)	PE(x)	43.7	36.5	31.9	26.7	22.2
Operating cash flow	79.9	106.5	129.8	155.3	185.4	EV/Sales (x)	6.7	5.5	4.8	4.4	4.0
Payments for PPE	(18.0)	(10.1)	(14.6)	(17.0)	(17.8)	EV/EBITDA (x)	26.0	20.7	17.8	15.5	13.1
Payments for intangibles	(1.3)	(0.9)	(0.9)	(1.2)	(1.2)	EV/EBIT (x)	34.6	26.7	22.4	19.3	15.9
Capitalised product development	(30.0)	(39.8)	(43.8)	(47.1)	(50.6)	FCF per share	35.2	53.1	39.4	50.3	64.5
Acquisitions	(6.5)	(37.2)	(33.6)	-	-	FCF yield %	2.2%	3.3%	2.4%	3.1%	4.0%
Other	1.9	0.1	-	-	-	NTA per share (\$ps)	0.73	0.79	0.90	1.21	1.59
Investing cash flow	(53.9)	(88.0)	(92.9)	(65.2)	(69.5)	PNTA (x)	22.4	20.8	18.2	13.5	10.3
Net Proceeds from issue of shares	-	-	-	-	-	Book value (\$ps)	2.24	2.46	2.72	3.03	3.40
Net proceeds of borrowings	57.9	71.0	30.0	-	-	Price/Book (x)	7.3	6.6	6.0	5.4	4.8
Repayment of borrowings	(34.5)	(51.3)	-	(20.0)	(20.0)	DPS (cps)	18.5	22.5	25.7	30.7	37.0
Dividends	(43.5)	(36.3)	(46.6)	(55.8)	(67.1)	Franking	100%	100%	100%	100%	100%
Other	(5.4)	(5.9)	-	-	-	Payout ratio % of NPAT	64.2%	44.6%	50.0%	50.0%	50.0%
Financing cash flow	(25.5)	(22.4)	(16.6)	(75.8)	(87.1)	Dividend Yield %	1.1%	1.4%	1.6%	1.9%	2.3%
Net change in cash	0.5	(3.9)	20.3	14.4	28.7						
Cash at start of period	22.6	23.7	19.7	40.0	54.3						
Exchange rate impact	0.6	-	-	-	-						
Cash at end of period	23.7	19.7	40.0	54.3	83.1						
Balance Sheet (A\$m)	FY23	FY24	FY25e	FY26e	FY27e	Performance Ratios					
Cash and cash equivalents	23.7	19.7	40.0	54.3	83.1	EBITDA Margin (%)	25.6%	26.7%	27.1%	28.5%	30.6%
Trade and other receivables	71.0	93.9	110.1	110.4	121.7	EBIT Margin (%)	19.3%	20.7%	21.6%	22.8%	25.2%
Inventories	121.4	110.1	113.3	117.3	114.1	NPAT Margin (%)	14.8%	14.8%	14.8%	16.2%	17.6%
PPE	37.7	40.2	48.3	49.8	51.4	Net debt/(cash)	51.7	75.4	85.2	50.8	2.1
Product development	108.2	129.4	153.5	179.4	207.2	Net debt-to-EBITDA	0.4	0.5	0.5	0.3	0.0
Intangibles	274.0	304.6	330.6	329.4	328.2	ROE (%)	16.7%	18.2%	18.9%	20.3%	21.8%
Right-of-use assets	38.6	34.4	34.4	34.4	34.4						
Other	18.8	36.5	36.5	36.5	36.5						
Total assets	693.3	768.7	866.5	911.4	976.5						
Trade and other payables	127.8	145.6	166.7	175.9	193.9						
Lease liabilities	50.0	45.9	45.9	45.9	45.9						
Borrowings	75.4	95.1	125.1	105.1	85.1						
Other	33.8	35.1	35.1	35.1	35.1						
Total liabilities	287.0	321.8	372.9	362.1	360.1						
Net Assets	406.3	446.9	493.6	549.3	616.4						
Share capital	49.2	50.3	50.3	50.3	50.3						
Other reserves	98.4	92.9	92.9	92.9	92.9						
Accumulated losses	258.7	303.8	350.4	406.1	473.3						
Total shareholders' equity	406.3	446.9	493.6	549.3	616.4						
Segmentals (A\$m)	FY23	FY24	FY25e	FY26e	FY27e	Segmentals (A\$m)					
Revenue						Communications total	274.5	326.9	395.5	443.0	498.4
Communications total	274.5	326.9	395.5	443.0	498.4	Metal detection	176.1	219.9	230.8	244.7	260.6
Metal detection	176.1	219.9	230.8	244.7	260.6	Other	5.9	3.7	2.8	2.1	1.6
Other	5.9	3.7	2.8	2.1	1.6	Total Revenue from external	456.5	550.5	629.2	689.8	760.6

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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